

Person to Contact: [REDACTED]

Telephone: [REDACTED]

Reply Code: [REDACTED]

Date:

AUG 15 1990

CERTIFIED MAIL

Dear Sir or Madam:

You applied for recognition of exemption from Federal Income Tax under sections 501(c)(3), 501(c)(4), 501(c)(5), 501(c)(7), and 501(c)(8) of the Internal Revenue Code, filing both application Forms 1023 and 1024.

Documentation submitted shows you were incorporated [REDACTED] under the laws of [REDACTED], by [REDACTED], who named herself as the sole director and herself and her teacher, [REDACTED], of [REDACTED], as the [REDACTED] voting members. Your articles as originally filed gave no statement of purpose, but refer to you as a school. Your articles have since been amended to provide that you are organized exclusively for charitable, educational, religious and scientific purposes, to conform with the exclusiveness of purpose required for exemption under section 501(c)(3).

Your purpose as stated in your application Form 1023 is "to achieve a higher level of civilization, the psychointellectual one, following the present and future evolution and behavior of man". In Form 1024, you state your purpose is "to establish the example society who will represent the true truth, the United States" and you state your example society will be a special brotherhood-sisterhood, the psychointellectuals who will represent the future human evolution.

The information you submitted regarding your present and proposed activities is vague and often contradictory. Replies to questions have often been in the first person, failing to distinguish you from your founder (e.g. "I am a school" and "I am a non-profit corporation.")

You state you plan to establish a school to "teach the true truth". You state that you have no facilities other than the home of your founder, and you are prohibited from using your home as a school or as a place to have students and teach. You also state you are running the school from your (founder's) home through her writings and telephone, and that you plan later on to purchase or rent a place for an office, lecture hall, laboratory, and gymnasium. Elsewhere you state that you hope to establish a chair at [REDACTED] for your founder, [REDACTED], and yet in another response you indicate [REDACTED] has been barred from the campus at [REDACTED].

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					
Date		9/15/90					

[REDACTED]

You also state your founder is currently the only person qualified to teach the truth (referred to also as [REDACTED]), other than her own teacher, [REDACTED], who owns similar rights in [REDACTED] and elsewhere, who runs, or is, [REDACTED], and who "is responsible for the welfare of humanity."

You state that your founder will personally select her students initially, and will send such students to [REDACTED] to be taught or prepared by [REDACTED] to be teachers of your beliefs.

You state your school is "only for the few chosen students who will qualify to be inside the [REDACTED]." You also state anyone can become a student but only a few will remain and that they will be your students for life. You state your students will be your members (non-voting) and that you will limit your benefits, products, and services to your members. You also state your teachers and students must live in the school, to become initiated by your founder, and that she will hire the teachers to teach the special teachers for the masses.

You state you "want to provide for my fraternity brothers and sisters to live and work without having economic difficulty." In the Form 1024, you state that your funds will be used to pay for the salaries of teachers, the expenses of the school, for research, field trips, publication of books and magazines, for the benefits of students (including) retirement, hospitalization, life insurance, the life time students and contributors, and expenses for the living-in students. Your bylaws state "All members of the corporation will be covered by life, health and accident insurance, and have all benefits." You also propose to pay for recreational trips for the students and faculty.

You state that your founder has selected one student, [REDACTED], a Professor of Biology at [REDACTED]. You state she has initiated him "through thought." You also state that she is responsible for the protection of [REDACTED] and his students; that (because) he works at [REDACTED], she must also work there to protect him and his students; that she will teach his students; that she has to be with him "to protect his thoughts and his life from the dangerous propaganda" and that [REDACTED] has to be with her "at all times." She states "we are a secret society," that "he ([REDACTED]) is God's creation, through me;" and "we are family." Your bylaws charge your founder with responsibility for the protection of [REDACTED], and, in turn, charge him with her protection. It is not clear whether or not you are currently paying his living expenses, or whether you have as yet paid his expenses for a trip to [REDACTED].

You state that you plan to publish and sell books written by your founder, and that these books, which include translations of books written by her teacher, will be your curriculum. You state she owns all rights (and copyrights) in America. You also state that some of these materials are "top secret" and should be classified. However, you also state you plan to sell these publications to raise money for the organization through royalties. (Elsewhere however, your founder emphasizes her ownership of all rights, patents, copyrights, etc. and that she needs the royalties.)

[REDACTED]

In Form 1023, you do not claim to be a school described in section 509(a)(1) and 170(b)(1)(A)(ii), but to have a school as a part of your activities. You also claimed to provide scholarship benefits or student aid, which you did not describe in the Form 1023, and to be a medical research organization connected with a hospital, stating that your connection is through the employment of [REDACTED] son at the [REDACTED].

You have filed a suit in the Circuit Court of [REDACTED] which, in part, grants the President of the United States permission to "exercise the rights of the Great Seal," which apparently refers both to "the Great Seal of Humanity, which sits in the Masonic Temple" and "the Seal of the United States," both of which are mentioned in the action as if one and the same. The action also claims "the Kingdom of Heaven" and "the Avenue, which is Jesus" as "the place where [REDACTED] and [REDACTED] think" and which "[REDACTED] wants to make (this area) the planet of [REDACTED] and [REDACTED] and the property of [REDACTED]," referring to it as "the new space station." The actual purpose of the suit (petition for injunction) is unclear, but it appears to attempt to ban "pseudosciences (sic) in the United States," or all the practices or sciences involving metaphysics or the human mind, other than those undertaken by your founder or her students. This is borne out by the statement made elsewhere; "I put a stop at the [REDACTED] Court by anyone to begin any scientific programs. The Americans do not qualify to begin. Only [REDACTED] is the chosen, and he has to be and work with me, to work the new program."

You state you cannot begin until you have upgraded the laws in the Constitution of the United States. You also state your primary goal is to prepare the State by law, which will prepare the department of education for the new program.

In the Form 1024, you claim to be a social welfare organization exempt under 501(c)(4) on essentially the same basis you claim to be exempt under 501(c)(3), except you state you will search for "fraternity brothers and sisters" who will be your students, and who will "become prepared through the school and the society to be examples" for others to follow.

You claim to be an agricultural organization described in section 501(c)(5) based on plans to conduct research, support agriculture (unexplained), protect the Mediterranean Sea, and develop fish farms.

You claim to be a social club described in section 501(c)(7) of the Code on the basis that you will provide excursions (for relaxation) for the students, as well as field trips, symposiums, and lectures. The lectures, you state, will be for the students and the public.

You claim to be exempt under section 501(c)(8) by being organized as a college fraternity or sorority, or chapter of a college fraternity or sorority, and by operating under the lodge system, with your parent lodge being [REDACTED].

Since 501(c)(8) organizations must also provide life, sick, accident, or other benefits to members, this claim is also apparently based on the retirement, life, health and accident insurance proposed for your members as noted above.

[REDACTED]

Your founder states she has been using her husband's retirement income as capital for the organization, to pay its expenses, which have consisted of her living expenses in [REDACTED], her husband's living expenses in [REDACTED] where he maintains and resides in her personal residence, as an office and as a place for your students. Your projected budgets show all of your support continuing to be from the retirement annuity, and your expenses to be for the living expenses and other personal expenses of the [REDACTED], including mortgage payments and homeowner's association dues.

Your founder also states she plans to draw a small salary, the amount as yet undetermined, but enough to "live comfortably." At the same time, she states her living expenses, as well as her husband's, the teachers' and the students' living expenses will be paid by the organization. All other income, she states, "will be invested in my new programs, such as my new and future economics and my new space station and space craft...".

Section 501(c)(3) of the Code exempts from Federal Income Tax organizations organized and operated exclusively for charitable, educational, scientific or other purposes specified in this section, no part of the net earnings of which inure to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda or otherwise attempting to influence legislation, and which does not participate or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations states that, to be exempt under 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes described in this section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization is operated exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more exempt purposes specified in section 501(c)(3), and that an organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(c)(2) of the regulations states an organization is not organized exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized and operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Section 1.501(a)-1(c) defines "shareholder or individual" as persons having a personal and private interest in the activities of the organization.

[REDACTED]

In Rev. Rul. 81-94, 1981-1 C.B. 330, an organization formed by a nurse, in which she served as the organization's minister, director, and principal officer, was held not to qualify for exemption under 501(c)(3). Since she assigned her assets and liabilities, including her income from outside employment, to the organization, then used the organization's funds to pay her living and personal expenses, the organization was serving private rather than public interests.

In Beth-El Ministries, Inc. v. United States, 79-2 USTC, paragraph 9412 (D.D.C. 1979), and Martinsville Ministries, Inc. v. United States, 80-2 USTC, paragraph 9710 (D.D.C. 1979), the court held the respective organizations were not exempt because part of the net earnings were held to pay the members' living expenses.

Likewise, in The Basic Unit Ministry of Alma Karl Schurig v. United States, 81-1 USTC, paragraph 9188 (D.D.C. 1981) the court held that a religious unit consisting of little more than a family, in which the members renounced personal property, assigned outside salaries to the organization, and, in return, were supported by the organization, had not met its burden of proof that it was not operated for private benefit.

In construing the meaning of the phrase "exclusively for educational purposes" in Better Business Bureau of Washington, DC Inc. v. U.S., 326 U.S. 279 (1945), ct. D 1650, 1945 C.B. 375, the Supreme Court of the United States said, "This plainly means that the presence of a single non-educational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes." This rationale applies equally to any specified purposes under section 501(c)(3).

To qualify for exemption under section 501(c)(3), the applicant organization has the burden of showing (1) that it is organized and operated exclusively for religious, educational or other stated purposes (2) that no part of its net earnings inure to the benefit of a private individual or shareholder, and (3) that no substantial part of its activities consist of the dissemination of propaganda or otherwise attempting to influence legislation or engaging in political activity. [American Churches v. Commissioner, 82 TC 18 (1984).]

Your plan to publish and sell books owned by your founder and sole director constitutes both private benefit and inurement of benefit, both prohibited by section 501(c)(3). Your utilization of income, and plans to continue to utilize income, to pay all the living expenses and personal expenses of your founder/director and her husband, including purchase and maintenance of homes in her name (or their names) and for their personal use, have not been established as reasonable compensation for services, and constitute private benefit and inurement of income.

Further, your plans to pay the living expenses, including housing and recreation, of your founder, her husband, and your teachers and students, and to provide all members, including your founder and the teachers and students with retirement benefits, and accident, sickness, health and life insurance, have not been shown to be reasonable compensation or in furtherance of charitable and educational purposes, and therefore constitute private benefit and inurement of earnings.

[REDACTED]

All payments made and to be made to, or on behalf of, or for the benefit of your founder, her husband, and/or her teachers and students are based on need and/or on the desire of your founder, rather than on the value of services rendered.

You cannot be likened to a school in this respect because your students you claim "will be students for life." Neither would a school ordinarily require all students and teachers to live in, or pay for their recreational trips, or provide the students with retirement benefits and/or life, or accident and health insurance.

Your plans to establish a chair for [REDACTED] at [REDACTED] serves her private and personal benefit, as does taking court action to attempt to prevent anyone but her from engaging in scientific activities.

Neither has your commitment, in your bylaws and apparently in practice, that your director protect her sole student and "be with him at all times," and vice versa, been shown to serve a charitable, or educational purpose, and in fact this appears to have caused some disruption or disturbance on the campus, which would not be in furtherance of exempt purposes.

It is therefore our conclusion that you are operated for the private benefit of your founder and those of her choosing, and to promote your founder's personal, business and economic interests. You are not organized or operated exclusively for charitable, educational, or other purposes consistent with exception under 501(c)(3). You are not exempt under section 501(c)(3) and contributions to you are not deductible.

Further, since you state alternately that you will be supported by tuition, that you will teach your students free and collect from the rich and from the publication of your founder's books, and that you expect your support from royalties from the U.S.A. and from sale of your books (the royalties separate from the sale of books are unexplained), while in fact all of your support has been from the husband of your founder, you have not shown reasonable cause to believe you will receive more than 1/3 of your support either from contributions from public sources or from a combination of public gifts and receipts from related activities, during your first 5 years, to qualify for an advance ruling treating you as other than a private foundation.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District Office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

If this letter becomes final, a copy of the letter will be sent to the appropriate State Officials as required by section 6104(c) of the Code.

[REDACTED]

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

Section 501(c)(4) of the Code exempts civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) provides that "an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments or social improvement."

Inherent in the definition of social welfare is the concept that only if persons generally within the community benefit will an activity promote the social welfare of the community. [People's Educational Camp Society, Inc. v. Commissioner, 331 F.2d 923 (1964)]. In the exceptional case, an organization whose services are made available to its members will, by the nature of the services and the groups receiving them, be considered as benefiting the community as a whole. In such exceptional cases, it must be clearly established that making the service available to the particular group benefits the community as a whole.

For example, in Rev. Rul. 79-316, 1979-2 C.B. 228, an organization that cleans up all liquid spills in a certain port city and has a membership comprised mostly of oil and chemical companies which store or ship liquids in the port area, was held to be exempt under 501(c)(4), as long as its charges to members and nonmembers were identical. The fact that membership in the organization enables certain members to meet requirements for licensing was considered incidental to its primary activity which benefited all inhabitants in the community.

Conversely, in American Women Buyers Club, Inc. v. Commissioner, 236 F.2d 509 (1956), the court affirmed denial of exemption to a membership corporation organized to promote the general good and welfare of members in the trade, encourage friendly relations, and provide aid to members in distress. Membership even within the trade was restrictive, since approximately 15% of applicants were turned down. The services provided by the organization were held to be primarily, if not exclusively, for the membership. The court's comments included the statement the "...opportunities for recreation and for vocational advancement, enjoyable solely by the membership of a tight little trade association, do not promote 'social welfare' within the meaning of the statute."

[REDACTED]

Likewise, in Rev. Rul. 81-58, 1981-1 C.B. 331, it was held that a police officers' association that, as its primary activity, provided lump-sum payments to its members on retirement, or to the beneficiaries upon death, was operated primarily for the benefit of its members and that any benefit to the community was incidental. The organization thus did not qualify for exemption.

Rev. Rul. 75-199, 1975-1 C.B. 160 held that an organization that raised money from its members and provided for payment of life, sickness, and accident benefits to its members was not exempt under 501(c)(4), since it was operated for the benefit of its members, and benefit to the community as a whole was incidental.

Section 501(c)(5) of the Code provides for exemption of labor, agricultural, or horticultural organizations.

Section 1.501(c)(5)-1(a) of the regulations states that organizations contemplated by section 501(c)(5) are those which:

- (a) have no net earnings inuring to the benefit of any member, and
- (b) have as their objects, the betterment of the conditions of persons engaged in the pursuit of labor, agriculture, or horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

In order for an organization to be exempt under this section it must be formed and operated primarily for one of the purposes prescribed in this section. Although it is not mandatory that the organization's members be engaged in (agricultural) pursuits, an agricultural organization described in 501(c)(5) must have as its primary purpose the betterment of the conditions of those engaged in agriculture and the improvement of their products and occupational (agricultural) efficiency. [IR 1.501(c)(5)-1(a) and Rev. Rul. 60-86, 1960-1 C.B. 198.]

Further, since the purposes of an agricultural organization described in section 501(c)(5) are to better the conditions of those engaged in agricultural pursuits generally [as opposed to labor organizations which are formed to benefit individual members] the provision of welfare aid and benefits to members of an agricultural organization would constitute prohibited inurement of income, as in Rev. Rul. 67 251, 1967-2 C.B. 196.

Section 501(c)(7) exempts "clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

The 1986 amendment to this section, changing it from the requirement that a 501(c)(7) be "organized and operated exclusively for pleasure, recreational and other nonprofitable purposes" to the "substantially all of the activities" requirement noted above, was made for the purpose of permitting the club to receive investment income and income from nonmember participation or use of facilities, to a substantially greater degree than previously allowed, without losing its exempt status. However, the Service has consistently held that its "other nonprofitable purpose and activities" must be similar to pleasure and recreation, and the courts have supported this position.

Further, the concept that a social club must be supported primarily by its members continues in effect.

Section 501(c)(8) provides for exemption of fraternal beneficiary societies, orders, or associations:

- (a) operating under the lodge system or for the exclusive benefit of a fraternity itself operating under the lodge system, and
- (b) Providing for the payment of life, sick, accident or other benefits

Section 1.501(c)(8)-1 of the regulations states a fraternal beneficiary society is exempt from tax only if operated under the "lodge" system or for the exclusive benefit of the members of a fraternal organization so operating, and that "operating under the lodge system" means carrying on its activities under a form of organization that comprises local branches, chartered by a parent organization and largely self-governing, called lodges, chapters, or the like. This section further states that in order to be exempt the society must have an established system for the payment to its members or their dependents of life, sick, accident or other benefits.

The Tax Court, 37 T.C. 582 at 585 (1961), held that permissible benefits to be paid by a fraternal beneficiary society included only those ensuring members against mishaps to the person.

Rev. Proc. 90-27, I.R.B. 1990-18 (April 30, 1990), page 17, section 5.01 (page 18), states a ruling or determination letter will be issued to an organization, provided that its application and supporting documents establish that it meets the particular requirements of the section under which exemption is claimed.

Since you are providing benefits only for your members, and will pay living expenses and provide life, sick, accident, retirement and other benefits to your members, you are not operated exclusively for the promotion of social welfare as required for exemption under section 501(c)(4) of the Code.

Since you are not operated primarily for the betterment of conditions of persons engaged in the pursuit of labor, agriculture or horticulture, or the improvement of the grade of the products of such persons, or the development of a higher degree of efficiency in their occupations, you are not described in section 501(c)(5) of the Code.

You are not organized and operated for social and recreational purposes or other (similar) non-profit purposes within the scope of section 501(c)(7). Your plans to solicit government and other grants and donations to pay your expenses, present and planned payment of living expenses and welfare benefits to or for your founder and your members, and other activities, would preclude exemption under this section.